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C O N F I D E N T I A L SECTION 01 OF 02 ROME 002520

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SUBJECT: ITALY: CENTRAL BANK EXPANDS OVERSIGHT OVER
FINANCIAL TRANSACTIONS

REF: ROME 2313

Classified By: Econ Counselor William R. Meara
for Reasons 1.4 (b) and (d).

11. (C) Summary: On January 1, the Central Bank of Italy will expand its oversight over financial transactions by creating a formal Financial Intelligence Unit (FIU) and abolishing the out-dated Foreign Exchange Office, which had, until now, served as Italy's FIU. A new law, based on EU regulation 1889 of 2005 will lower the threshold on reporting requirements for cash-transfers, bank transactions and abolish third party checks. The change is necessary, but some fear that over-burdensome systems could drive people away from the formal banking systems. End summary.

Financial Intelligence Unit Created

12. (SBU) Italy's Foreign Exchange Office (UIC), a relic from the pre-Euro days that had been charged with monitoring cash transactions, will be absorbed by the Bank of Italy effective January 1, 2008. According to press reports, Bank of Italy Governor Mario Draghi and Minister of Finance Tommaso Padoa-Schioppa argued over control of the new directorate for months. Draghi won the argument and is now charged with appointing a director; two long-time BOI insiders are competing for the job.

13. (SBU) Principle Director of Competition, Regulation and Services department Luigi Donato explained the changes to Econoff on December 13. The UIC's 450 employees will move to the Bank of Italy, 60 of the former UIC employees, will constitute the new FIU. Donato said that he thought this number would be augmented after they review the workload. (The rest of the employees will be absorbed into other functions at the BOI.) Previously, a UIC office performed the work of a financial intelligence unit, but it was not centralized and reported to both the Ministry of Finance and the Central Bank. According to the new law, the FIU will report to the Governor of the Bank of Italy and have sole responsibility for analyzing trends in financial transactions, noting anomalies in banking transactions, and reporting anomalies to the appropriate government law-enforcement authorities, such as the Guardia di Finanza (Financial Police). Donato affirmed that Italy's interagency Financial Security Committee will still make the policy decisions and will direct the new FIU to take action when appropriate. (Note: In 2006, the UIC received over 10 thousand reports of suspicious activity. The new law will

lower the reporting threshold and will expand the workload.
End note).

New Law

¶4. (SBU) The new law upholds all previous anti-money laundering laws and brings Italy's laws in line with EU directive 1889 of 2005. The threshold for filing significant transaction reports has been lowered, the aim of these changes is be up-to-date with Financial Action Task Force recommendations. Transactions of 5,000 Euro and above must now be reported to the new FIU. (Note: Reftel reported that the threshold would be lowered to 10,000 Euro, BOI officials explained that the change was a last minute decision to expand their oversight authority.) Western Union and other money transfer organizations must report transactions at or above 2,000 Euro. The Guardia di Finanza will retain its authority to monitor these transactions, but will pass their information to the FIU.

¶5. (SBU) Third party use of checks will be outlawed and financial institutions will face heightened reporting requirements. Donato explained that many of Italy's banks are already operating under the new procedures, but noted that the greatest impact would be felt by lawyers and real estate brokers, who previously did not operate under such strict reporting requirements. A second phase of the Bank of Italy reorganization will take place later this year with the creation of a new oversight body specifically designed to monitor trading houses, lawyers, and real estate brokers. A third phase of the reorganization planned later this year,

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Donato explained, will close 60 of the Bank of Italy's 90 branches. Donato said that with advances in communication and electronic banking, the BOI decided it could cut back on its offices.

Implications

¶6. (C) Comment: A reorganization of the Central Bank's monitoring capabilities is long overdue. Post looks forward to establishing close ties to the new FIU, and to using contacts there in support of efforts to fight terror finance/WMD proliferation and other crimes. However, in a society in which tax evasion is widespread, some here fear that the heightened scrutiny and regulation envisioned by this law might actually push many transactions out of the banking system. End comment.
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